

# Bank Resolution

---

**United States Agency for International Development  
SEGIR – Financial Services  
Review and Evaluation**

**December 11, 2002  
Washington, DC**

---

---

- **Why is it important?**
- **What does it entail?**
- **Our Experiences**
- **Lessons Learned**

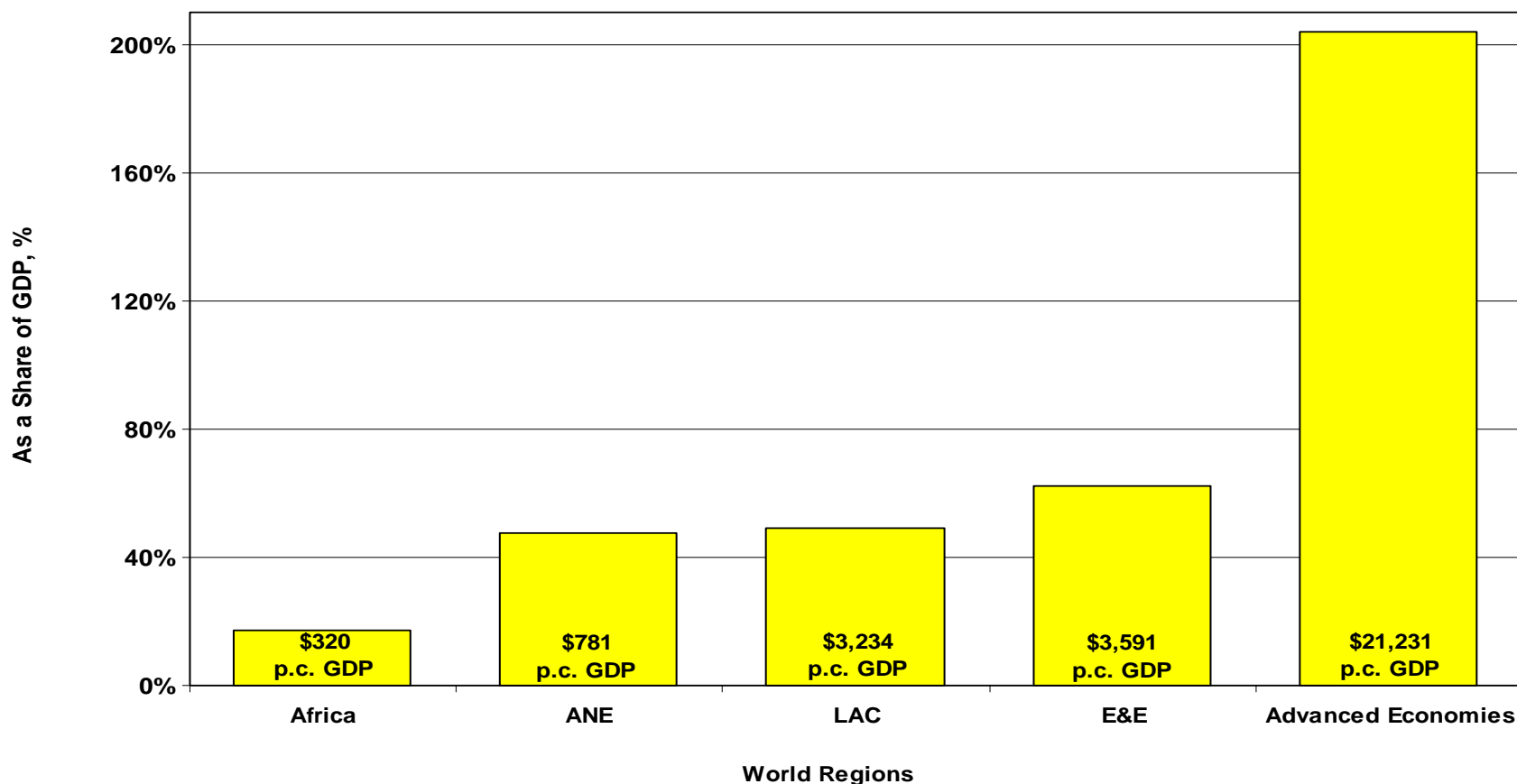
- **Sustainable economic development hinges on a healthy financial sector and in most developing countries, banks dominate the financial sector**
- **Often, banks are unable to function properly**
  - Due to an underdeveloped environment; and/or
  - A heavy burden of non and sub-performing assets

***Unhealthy financial institutions impede efforts to achieve sustainable economic growth and prevent other financial sector reforms from fully achieving intended results***

# Banking Assets and GDP per capita



Total Bank Assets as a Share of GDP, 1999  
- select USAID countries -



**Note:** Nonweighted Average of Select Countries per 'USAID' Region.

**Source:** FDIC; IMF International Financial Statistics; Economist.

# Key Components for a Healthy Financial Sector

---



## □ Prevention

- Bank Supervision and Regulation – presentation by Lori Bittner, FSR Group of BearingPoint

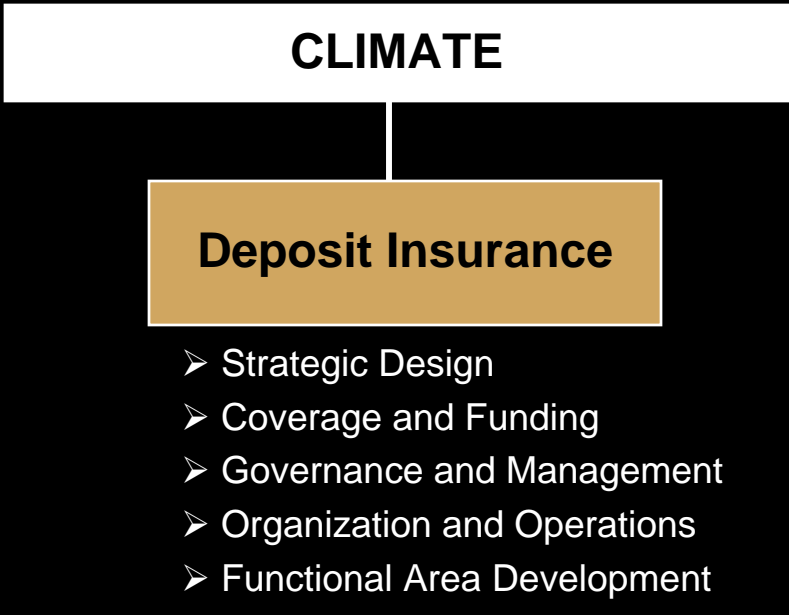
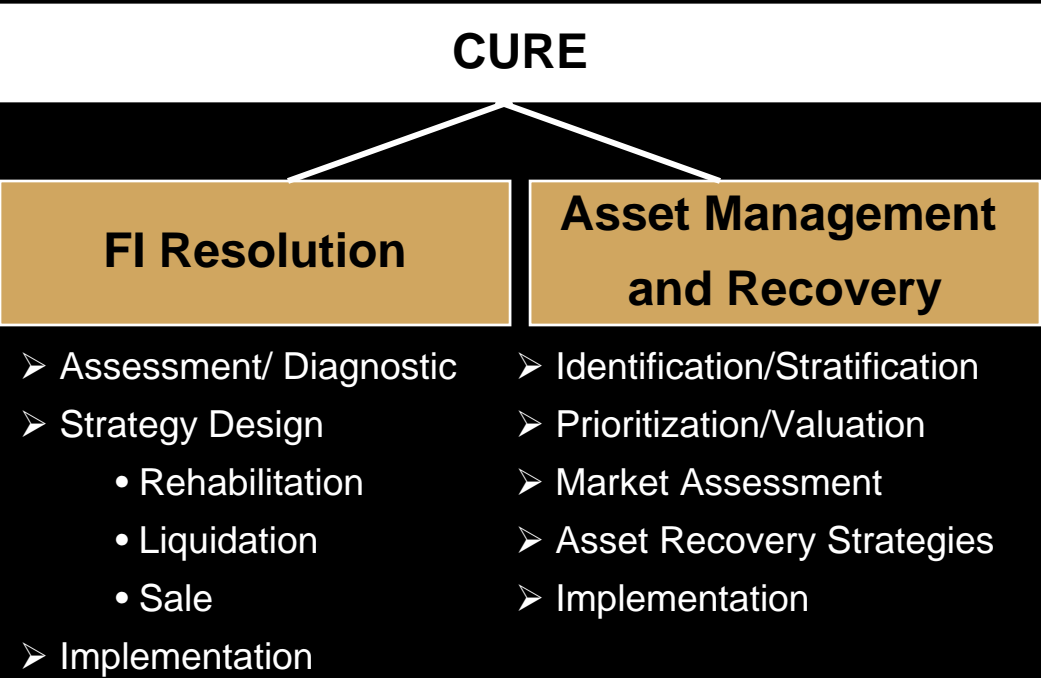
## □ Cure

- FI resolution strategy consistent with government objectives
  - Credible exit strategy for failing banks
- Realistic process for managing distressed assets and recoveries

## □ Climate

- Confidence
  - Bank Depositors – Deposit Insurance
  - Bank Creditors and Investors
- Creditor rights
- Market competition and discipline

# Our Resolution Solutions



Public Education	MIS/IT	Accounting & Reporting	Oversight
SUPPORT FUNCTIONS			

# USAID Resolution Engagements



Project	Bank Rehabilitation & Privatization	Asset Management & Recovery	Problem Loan Workout	Deposit Insurance
Bulgaria *	✓	✓	✓	✓
Croatia	✓	✓	✓	
Poland	✓	✓	✓	
Slovakia *	✓	✓	✓	
Bosnia & Herzegovina *	✓	✓	✓	
Romania	✓	✓	✓	✓
Yugoslavia - Montenegro and Serbia *	✓	✓	✓	✓
Armenia	✓	✓	✓	✓
Ukraine	✓	✓	✓	
Ecuador *	✓	✓	✓	✓
Kazakhstan *	✓	✓	✓	✓
Indonesia *	✓	✓	✓	✓

**\* FS SEGIR Projects**

# Tangible Results and Benefits



## Cure - Resolution

- ❑ **Feed-back loop for supervision to understand what went wrong**
- ❑ **Recycle “distressed” assets into productive use**
- ❑ **Impose real market discipline for bank management and debtors**
- ❑ **Prevent erosion of safety and soundness principles**
- ❑ **Effective resolution allows future failures to be contemplated – some failures are good**

## Climate - Deposit Insurance

- ❑ **Increased depositor confidence**
- ❑ **Decreased government exposure – eliminate/reduce guarantees**
- ❑ **Increased market discipline for bank creditors**



## Lessons Learned

---

- Emphasize Capacity Building
- Provide Sufficient Hands on Training
- Engage Private Sector
- Early Involvement

# Allow Time to Build Institutional Capacity for Credible Resolution

---



- **Local buy-in on resolution takes time to achieve**
- **Implementing resolution programs is not a substitute for capacity building – TA should support both**
- **Delivering manuals is ineffective without counter-part involvement and ownership – sense of accomplishment**

**Success: Slovakia Asset Sale, Bulgaria Deposit Insurance**

# Provide Sufficient Hands-On Training



- **TA should allow for testing of the resolution strategies and procedures**
- **Advisory support should entail test cases – these test cases take time to play out and for the iterative process to work**
- **Identify and include all key players in the process**
  - Government Officials
  - Relevant Agencies
  - Private Sector
  - Judges

**Success: Slovakia Asset Sale, Bosnia Bank Resolution**

- **Private sector bankers and businessmen know what the barriers to success are. Tap their knowledge to develop solutions. Test solutions with them.**

**Success: Slovakia Asset Sale**

# Get Involved Early

---



**It is easier to implement an appropriate systemic resolution approach if assistance is provided early on. Otherwise, assistance ends up as “damage control” or working within a structure that is far from optimal.**

**Success: Bulgaria Deposit Insurance, Indonesia Deposit Insurance**

---

# Q & A

---

# Contact

---



**David C. Cooke, Executive Director, Tel: +1.703.747.7560**  
E-mail: [dcooke@bearingpoint.net](mailto:dcooke@bearingpoint.net)

**John “Jack” Carter Biggs, Manager, Tel: +1.703.747.4221**  
E-mail: [jcbiggs@bearingpoint.net](mailto:jcbiggs@bearingpoint.net)

**James R. Hambric, III, Senior Manager, Tel: +381.63.361.663**  
E-mail: [jhambriciii@bearingpoint.net](mailto:jhambriciii@bearingpoint.net)

This document is protected under the copyright laws of the United States and other countries as an unpublished work. This document contains information that is proprietary and confidential to BearingPoint or its technical alliance partners, which shall not be disclosed outside or duplicated, used, or disclosed in whole or in part for any purpose other than to evaluate BearingPoint. Any use or disclosure in whole or in part of this information without the express written permission of BearingPoint is prohibited.

© 2002 BearingPoint (Unpublished). All rights reserved.